

PROPOSED RESOLUTION

Resolution W-5081
DWA

AGENDA ID #14644 Rev. 1
Item #6

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION W-5081
March 17, 2016

RESOLUTION

(RES. W-5081) CALIFORNIA WATER SERVICE COMPANY,
ORDER AFFIRMING THE DIVISION OF WATER AND
AUDITS' APPROVAL OF CALIFORNIA WATER SERVICE
COMPANY'S REQUEST FOR ESCALATION INCREASES
AND SALES RECONCILIATION MECHANISM (SRM)
ADJUSTMENTS FOR ESCALATION YEAR 2016.

SUMMARY

This Resolution affirms the Division of Water and Audits (DWA) approval of California Water Service Company's (Cal Water) request for escalation increases and sales reconciliation mechanism (SRM)¹ adjustments for Escalation Year 2016 under the terms and conditions set forth in Advice Letter (AL) 2197, 2197-A, 2197-B, 2197-C, and 2197-D. DWA's approval of AL 2197, as supplemented, is in compliance with Ordering Paragraphs 8 and 43 of Decision (D.) 14-08-011, Cal Water's most recent general rate case (GRC) decision, dated August 14, 2014. The request is reflected in rates effective January 1, 2016. As a result of the escalation increases and SRM adjustments, Cal Water's Selma District will see its current revenue requirement of \$5,050,472 increase by an estimated \$11,553, or 0.23%.

DWA's approval of this request is consistent with the California Public Utilities Commission's (Commission) commitment to rate design that is fair, just, and reasonable in order to provide safe and reliable water supply.

The Commission has reviewed DWA's disposition of the City of Selma's (City) protest to AL 2197 and affirms DWA's rejection of the City's protest.

¹ The sales reconciliation mechanism (SRM) was adopted in California Water Service Company's (Cal Water) most recent General Rate Case (GRC) Decision (D.) 14-08-011. The SRM is a consumption adjustment mechanism that provides Cal Water an opportunity to mitigate against high WRAM balances.

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BACKGROUND

Pursuant to General Order (GO) 96-B, Section 7.3.1 of the Water Industry Rules in GO 96-B, and Ordering Paragraphs 8 and 43 of Decision (D.) 14-08-011, Cal Water filed AL 2197 on November 13, 2015 as a Tier 1 filing that is effective pending disposition in which Cal Water requested escalation increases and Sales Reconciliation Mechanism (SRM) adjustments. Cal Water subsequently filed supplements AL 2197-A, 2197-B, 2197-C, and 2197-D on November 25, 2015; December 15, 2015; December 21, 2015; and December 29, 2015, respectively, to make corrections.

Supplement AL 2197-A made corrections to the Bear Gulch, Chico-Hamilton City, Dixon, East Los Angeles, Hermosa Redondo, King City, Los Altos, Marysville, Oroville, Stockton, and Westlake Districts. Minor typographical and calculation errors were corrected.

Supplement AL 2197-B made corrections to the Bayshore, Bear Gulch, East Los Angeles, Hermosa Redondo, King City, Los Altos, and Westlake Districts. Corrections were made regarding the Earnings Test and other minor errors.

Supplement AL 2197-C made corrections to the East Los Angeles, Hermosa-Redondo, Los Altos, and Westlake Districts. Calculation errors were corrected.

Supplement AL 2197-D made corrections to the Marysville District. Calculation errors were corrected.

NOTICE AND PROTEST

AL 2197 was served in accordance with Water Industry Rule 4.1 of GO 96-B. A notice of the request in AL 2197 was sent to Cal Water's Selma customers on their first bill subsequent to the January 1, 2016 effective date (GO 96-B, Water Industry Rule 3.2).

Selma Protest of AL 2197, 2197-B, and 2197-C

Costanzo & Associates, on behalf of the City of Selma (City), filed a protest of AL 2197, 2197-B, and 2197-C on December 31, 2015. The City protested on the grounds that the relief requested is not authorized by D.14-08-011 because the SRM methodology is different than described in D.14-08-011. The City also protested on the grounds that in

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light of Governor mandated water reductions, the SRM is unjust and unreasonable, and the request should require a formal hearing.

DWA reviewed the issues raised by the City's protest and sent a disposition letter in response on January 4, 2016. In the letter, DWA rejected the City's protest as untimely pursuant to General Order 96-B, General Rule 7.4.1. The protest period ended on December 3, 2015. DWA further noted that the supplements did not make material changes to AL 2197 that impacted the Selma District. Rule 7.5.1 provides that the filing of a supplement does not automatically continue or reopen the protest period. The City's protest does not require or necessitate a reopening of the protest period.

Selma's Protest Procedurally

Costanzo & Associates sent a response on January 6, 2016 stating that its protest is not untimely because there were "significant changes made from AL 2197 to AL 2197-B" and the supplements should be treated as an amendment, subject to re-opening of the time period for filing protests. The response concluded with a request for the advice letter approval disposition so that, based on the City's protest, the City may request Commission review of the aforementioned disposition.

DWA sent the City a supplemental disposition letter on January 7, 2016 that outlined the substantive and procedural grounds for rejecting the City's protest. DWA noted that the Selma District's rate changes are completely accounted for in the original AL 2197 filing and are unaffected by the subsequently filed supplements. The City's claim that significant changes made from AL 2197 to AL 2197-B affecting the Selma District is wrong. Further, DWA stated that the SRM was correctly applied and that Cal Water adjusted the sales forecast by fifty percent of the recorded sales deviation, as authorized by D.14-08-011.

Selma's Argument for Commission Review

Costanzo & Associates sent a request for Commission Review of DWA's disposition of the City's protest on January 15, 2016. The City stated that there were no tariff sheets included in AL 2197-B or 2197-C regarding the Selma District and that the only tariffs filed that affect the Selma District are in the original AL 2197 filing. The City also stated that the original AL 2197 did not serve notice of SRM adjustments and the SRM adjustments were not made apparent until AL 2197-B was filed; therefore, the City argues it only received notice of an escalation step increase, not an SRM adjustment.

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The City also stated that the Selma District tariff in AL 2197 “refers to the increases being the result of AL 2196,” which is comprised of step increases only. Consequently, the City went on to state at p.3 that “Cal Water’s Advice Letters did not apprise Selma of the basis for the increase sought” and, therefore, the utility did not properly serve or give notice of AL 2197 pursuant to Rule 7.4.2(1).

In its January 15, 2016 letter the City also disagreed with DWA’s conclusion that the SRM correctly adjusted the sales forecast by 50% of the recorded sales deviation as authorized by D.14-08-011. The City’s basis for this disagreement is the wording used in the advice letter and that the City did not know what methodology or formula was used in the rate calculations. The City then stated that in light of mandatory water use restrictions, the SRM is not fair, just, or reasonable. The City concluded with a request for Commission review of the January 7, 2016 supplemental disposition letter; reversal of SRM adjustments sought by the advice letters; and credit to customers of the rates already paid pursuant to the SRM adjustments.

DISCUSSION

Cal Water filed AL 2197 on November 13, 2015. Pursuant to GO 96-B, General Rule 4.6, the 20-day protest deadline was December 3, 2015. The City’s protest was filed on December 31, 2015. AL 2197-A and subsequent supplements were immaterial to the Selma district; only AL 2197 had a material effect on the Selma District. Therefore, the City’s protest was filed 28 days late and is untimely.

The City further stated that AL 2197 only requested escalation steps and not SRM adjustments, thereby giving it no cause to protest the original AL 2197 filing. However, the original AL 2197 did in fact request SRM adjustments for Selma and the advice letter clearly stated at p.1 that “this advice letter requests approval of Cal Water’s escalation increases and Sales Reconciliation Mechanism (SRM) adjustments.” As such, the City had sufficient time to review the SRM adjustments in the original AL 2197 and make a timely protest pursuant to GO 96-B, General Rule 7.4.1.

Regardless of the timeliness of the City’s protest, the protest should be rejected on substantive grounds. Ordering Paragraph (OP) 8 of D.14-08-011 authorizes Cal Water to file escalation advice letters.

“California Water Service Company (CWS) shall file escalation advice letters for 2015 and 2016, as provided for in the Rate Case Plan adopted in Decision 07-05-062,

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or its successor. The budgeted amounts for conservation expenses in the Settlement Agreement attached to this decision as Exhibit A are set forth as follows:

- Office of Ratepayer Advocates and CWS agree to an average annual conservation budget of \$6,999,757 for Test Year 2014, Escalation Year 2015, and Escalation Year 2016 for a total 3-year budget that shall not exceed \$20,999,271;
- These budgets are excluded from escalation and instead use the average annual budget in calculating the allowed revenue requirement for Test Year 2014, Escalation Year 2015, and Escalation Year 2016; and
- Budgets may be used in a district at any time during the 3-year rate case cycle as long as the total amount spent over the three years does not exceed the total 3-year budget.
- Funds are not transferrable across districts.²

Cal Water filed AL 2197 requesting escalation increases and SRM adjustments effective January 1, 2016. The requested escalation increases are in compliance with OP 8 of D.14-08-011.

OP 43 of D.14-08-011 authorizes Cal Water to implement the SRM in order to adjust its sales forecast by 50% of the recorded sales variation from adopted sales and calculate rates based on the adjusted sales.

“In light of the current drought, California Water Service Company (CWS) is authorized to implement a drought Sales Reconciliation Mechanism (SRM) as a pilot program for the second and third years of the rate case period by calculating the recorded sales for the period of the previous October through September for each district, and comparing the amounts to the sales adopted in this decision. If recorded sales are more than 5% different than adopted sales, CWS is authorized to adjust its overall sales forecast by 50% of the recorded sales variation, flow that change through the revenue requirement (also proportionally changing production costs to match the proposed sales change), and calculate rates based on the adjusted sales. If the drought SRM triggers a rate change in any area, CWS shall implement the adjusted rates with a notice to customers that the rate change is the result of the drought SRM. CWS is authorized to open a drought SRM Balancing Account (SRM BA) to track any change in rates associated with the drought SRM. The SRM BA is subject to review in CWS’s next general rate case. The drought SRM is only

² D.14-08-011, pp.98-99

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authorized for this rate case period, and may be considered in CWS's next general rate case.³

The SRM adjustments requested in AL 2197 amend the sales forecast by 50% of the sales deviation and are in compliance with OP 43 of D.14-08-011. Pursuant to GO 96-B, Water Industry Rule 4, the City can request from Cal Water the workpapers containing the formulas used in the advice letters in order to verify the calculations.

The City concludes in its January 15, 2016 letter that the SRM is not fair, just or reasonable in light of mandatory water use restrictions. Compliance advice letters are not the appropriate mechanism for reexamining the SRM adopted by D.14-08-011 (General Order 96-B, Rule 5.2 (1).) We find that AL 2197 is a compliance filing pursuant to Ordering Paragraphs 8 and 43 of D.14-08-011 for the Selma District. In this decision, the Commission has determined the SRM to be fair, just and reasonable. The City has the opportunity to participate as a party in Cal Water's ongoing GRC, A.15-07-015, where it would be appropriate to litigate the matter of the SRM in light of mandated water restrictions.

The Commission has reviewed DWA's disposition of the City's protest to AL 2197 and affirms DWA's rejection of the City's protest.

COMMENTS

Public Utilities Code Section 311(g)(1) provides that resolutions generally must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission.

Accordingly, this proposed resolution was mailed to the utility and its service list, and made available for public comment on February 16, 2016. No comments were received.

FINDINGS AND CONCLUSIONS

1. By Advice Letter (AL) 2197, 2197-A, 2197-B, 2197-C, and 2197-D filed on November 13, 2015; November 25, 2015; December 15, 2015; December 21, 2015; and December 29, 2015, respectively, California Water Service Company (Cal

³ D.14-08-011, p.111

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Water) requests authorization for escalation increases and sales reconciliation adjustments (SRM) for the Selma District to increase the authorized revenue of \$5,050,472 by an estimated \$11,553 or 0.23%.

2. Requested authorization for escalation increases and SRM adjustments is consistent with the process provided by the Commission in Ordering Paragraphs 8 and 43 of D.14-08-011.
3. In accordance with GO 96-B, General Rule 7.1 and 7.2, all advice letters are public record and the utility shall promptly provide a copy of the advice letter to anyone so requesting. Furthermore, pursuant to GO 96-B, Water Industry Rule 4, the recipients have the option to receive the entire advice letter, tariffs and workpapers for examination.
4. In D.14-08-011, the Commission found the SRM to be fair, just, and reasonable. The appropriate place for reexamination of the SRM is in Cal Water's current GRC, A.15-07-015.
5. Approval of the requested escalation increases and SRM adjustments by Cal Water ensures that the customers of Cal Water receive a safe and reliable supply of drinking water at a reasonable rate.
6. Approval of the requested escalation increases and SRM adjustments by Cal Water is consistent with the State of California's and the Commission's goals in ensuring reliability and sustainability of safe, clean, and affordable water for all Californians.

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THEREFORE IT IS ORDERED THAT:

1. The Division of Water and Audits' disposition of California Water Service Company's request in Advice Letter 2197, as supplemented, for authorization for escalation increases and sales reconciliation adjustments for Escalation Year 2016 is affirmed.

This Resolution is effective today.

I certify that the foregoing Resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on March 17, 2016; the following Commissioners voting favorably thereon:

TIMOTHY J. SULLIVAN
Executive Director

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CALIFORNIA WATER SERVICE COMPANY Advice Letter No. 2197 SERVICE LIST SELMA DISTRICT

Thomas Esqueda, Director
City of Fresno, Dept. of Public Utilities
Thomas.Esqueda@fresno.gov

May Albiani, Executive Assistant
City of Fresno, Dept. of Public Utilities
may.albiani@fresno.gov

Davis Weisser, Public Works Director
City of Fowler
Dweisser@ci.fowler.ca.us

City Manager
City of Selma, City Hall
keng@cityofselma.com

Darin T. Duncan
Manager of Rates
California Water Service Company
1720 North First St.
San Jose, CA 95112-4598

Neal E. Costanzo
Costanzo & Associates
575 E. Locust Avenue, Suite 115
Fresno, CA 93720-2928

Danilo Sanchez
Danilo.Sanchez@cpuc.ca.gov

Lisa Bilir
Lisa.Bilir@cpuc.ca.gov

Richard Rauschmeier
richard.rauschmeier@cpuc.ca.gov